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AGRICULTURAL ADJUSTMENT ADMINISTRATION
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Dairy Production Control Proposals

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Intricate problems of the dairy industry have engaged the serious and constant attention of the Agricultural Adjustment Administration since the Farm Act became a law on May 12, 1933.

The sections of the Act relating to control of production and the imposition of processing taxes with which to pay benefits to cooperating producers should be considered by dairymen. The complex nature of the dairy problem and the consequent divergent opinions and recommendations of different regions and branches of the industry have combined to retard the formulation of a comprehensive and practical national program that could be administered fairly and successfully under the present provisions of the Agricultural Adjustment Act.

It is therefore highly important at this time to provide interested parties with the basic facts respecting (1) the production control problem itself under the Act; (2) the tentative plan of dairy adjustment offered by Secretary Wallace on behalf of the Agricultural Adjustment Administration, to be discussed and amended if desired by the dairy industry; and (3) the various proposals made to the Administration during the past few months for programs which the respective authors deemed feasible to meet the situation. As these proposed plans did not always fit the requirements and limitations of the Act or entirely answer the economic questions involved for the industry, more detailed analysis of the respective plans that have been advanced are issued separately in appendices for reference.

The Administration appreciates the time and thought which the members of the dairy industry have spent on the problem of production adjustment, especially as the diversity of interests within the dairy field offer a challenge to the wisdom and patience of our citizens in trying to arrive at a workable program.

The Dairy Production Control Problem Under the Act. The crux of the dairy problem from an administrative standpoint under the Agricultural Adjustment Act as it now stands may be illustrated in the common experience of recent months.

Last summer when dairy products prices fell and grain prices advanced so that the feed ratio was less favorable, the first thought of the industry was for stabilization or removal of surplus rather than outright production control accompanied by a processing tax to pay benefits. On a falling market or a very low market producers shy away from a processing tax in fear that it may either retard consumption if reflected in higher consumer prices, or bear down on the already unfortunate producer if subtracted from his diminished income. Thus the testimony of producers' representatives at the processing tax hearing in October, 1933, was for a very small processing tax, if any.

At the present time, March, 1934, with firmer butter prices and a somewhat rising market trend with temporarily lowered production, reduced storages, and higher consumption, milk producers are equally dubious of engaging in strict production reduction. They apparently feel that the "lag" in consumer buying power has caught up with the pace of the producer and that natural forces of de-

mand will swing upward by degrees to take care of all the potential production power now latent within the industry. The industry, however, has still some sanitary and economic adjustments to make which higher prices cannot alone provide--a point which many branches of the industry recognize in consideration of emergency measures still to be advanced.

Meanwhile, regardless of the sudden advance in butterfat prices, many producers are in distress and demand relief of some kind if it is possible under federal action. The problem for the Administration is to recommend and carry out practical emergency measures that will leave the industry in as good or better condition and yet provide some cash benefits to producers not in conflict with sound economics or public welfare.

To this end, the proposed plan advanced by Secretary Wallace out of the studies made by the Agricultural Adjustment staff of all the plans presented, aims to combine the fundamental points in a national dairy adjustment and allotment program with the more pressing phases of an emergency plan to afford direct and immediate aid to producers who comply with the basic program itself.

K. M. K. MAR 26 '34 Both the long-time objective with its allotment features and the additional emergency provisions have been offered to the industry for thoughtful discussion, not as a final word or an arbitrary scheme, but a tentative proposal quite within the scope of the Act's voluntary and democratic principles. Members of Congress and representatives of the beef cattle industry have likewise been made acquainted with the proposed plan, because any immediate cash payments or benefits under an emergency appropriation must be furnished by Congress, and the beef cattle industry is linked with the dairy industry in the proposed joint appropriation. Furthermore, the beef cattle industry is closely connected with the dairy industry in respect to methods of adjustment and the reactions arising from production control.

In their studies embodied in the publication "Economic Bases for the Agricultural Adjustment Act," Mordecai Ezekiel, economic adviser to Secretary Wallace, and Louis H. Bean, economic adviser, Agricultural Adjustment Administration, have pointed out on pages 61 and 62 some of the fundamental problems involved in squaring up farm commodities which are largely on a domestic basis with the processing tax on the one hand and reduced production on the other.

After pointing out that cotton and wheat afford almost ideal conditions for the operation of the domestic allotment plan to increase farm income, and that during the period when processing taxes are imposed cooperating farmers are guaranteed that the market price plus the benefits paid them will approach a parity price for that part of their product needed for domestic consumption, the authors emphasize the difference existing in respect to commodities that ordinarily sell entirely in the domestic market--such as butter.

Quoting from the publication by Ezekiel and Bean:

"ON DOMESTIC COMMODITIES THE TAX WOULD PRIMARILY FACILITATE THE CONTROL OF PRODUCTION, BUT WOULD NOT OF ITSELF PROVIDE INCREASED FARM INCOME

In the case of a commodity such as butter, which sells ordinarily entirely in the domestic market with no export movement, there is no possibility of the farmers resisting the reduction in the farm

price by diverting part of their supplies to foreign sale. The only way in which the imposition of the tax, without production control, may lead to increased income in the hands of the farmers is by increasing the price paid by consumers or by reducing the margin taken by distributing agencies. So long as the same supplies are forced on the markets, presumably consumers would pay only the same price. Only to the limited extent that distributing costs would be reduced would the imposition of the processing tax on such a commodity increase the total income which will be derived from such commodity.

" It might be worth while to impose a processing tax on a product such as butter or beef cattle, merely for the sake of securing funds with which to control volume of production. Such cases offer a less promising field for increasing income through the processing tax than do those commodities such as cotton and wheat, where the balance of economic responses in domestic and foreign markets is such that even in the absence of production control a net gain may be made in farm income from the commodity, through the modification of pricing practices which would result from the application of the tax.

REDUCED PRODUCTION DOES NOT INCREASE FARM INCOME FOR ALL COMMODITIES

" For products sold entirely on the domestic market, the utility of the processing tax lies largely in its producing the funds to bring about a reduction in the supply.

" In the case of some products, such as butter and cattle, there is far less response to change in prices than is true in case of potatoes. For these two products a small supply will apparently sell for somewhat more than a large supply. The difference is, however, less pronounced than in the case of potatoes.

" It is evident that reduction in the volume of production is not a universal answer to the problem of how to secure higher farm returns. For some products, such control of production may bring in materially increased returns; for other products it may produce an incidental increase in returns; and for still other products, control of production may actually reduce gross income. Furthermore, there are marked limitations to what may be done to increase farmers' income under any conditions so long as demand conditions remain relatively poor. With any given level of demand conditions there are thus definite limits to the effectiveness of production control as a way of raising farm incomes.

REDUCED PRODUCTION MAY BALANCE OUTPUT AND SO CONTRIBUTE TO GENERAL SOCIAL WELFARE

" A certain degree of restriction of production may be desirable from the point of view of the general welfare. When farm products are produced in such abundance that the retail prices do not even pay the cost of moving them to market, such surpluses are of no value to anyone. In such cases, it is clearly to the general good to save the additional effort involved in producing the excess supply. Even where such physical destruction is not involved, the attempt to force exceedingly large supplies into consumptive channels may press prices so low that farmers' buying power for industrial products is largely elimina-

ted. Under such conditions the inability of farmers to buy and the resulting disturbance of the normal exchange of farm products for city products may result in such a serious break-down in industrial economic activity that the city loses far more through reduced employment and general economic depression than it gains from the resulting low prices for cotton or wheat or meat.

What is needed is a balance between the production of various products and the quantities which the markets can absorb at reasonable prices and with sustained activity on the part of industry as a whole."

When Gains to Producers Result from Production Control. Gains to dairy producers, therefore, it is believed, are likely to follow a general reduction program under the following circumstances:

1. Where consumers spend more money for milk and its products after reduction is undertaken, provided farm costs or market margins do not rise faster than the rate of gain in consumer expenditures.
2. Where farm production costs decline along with less production.
3. Where a large distribution margin exists which can be made to absorb part of the higher price to producers without passing it on completely to consumers.

In the dairy field fluid milk appears to be the only product in which Consumer expenditures are increased directly as a result of restricted supplies.

In the case of butter evidence indicates that total consumer expenditures stay about the same regardless of production or price. Gains here would come largely from decreased production costs or marketing costs rather than from a higher total price going to butter producers.

With cheese there are instances of wide distributive margins which might absorb some of the price increase to producers without raising consumer prices.

With this general background setting forth the situation respecting milk and dairy products under the provisions of the Act, the Agricultural Adjustment Administration desires to give the producers and other interests in the dairy industry the same chance to consider tentative plans for a program to be projected under the terms of the Act as the growers of cotton, wheat, tobacco, corn and hogs enjoyed prior to the formal announcement of definite official procedure.

Being not unmindful of the delicate balance existing between supply and demand on the domestic market for milk and dairy products, and fully aware of the difficult task of working out an equitable allotment for the 4,900,000 farmers who milk cows (or such portion of this number as may desire to cooperate) the Administration believes its duty is to offer a tentative plan. Milk and dairy products are named as a basic commodity in the Act at the request of members of the industry, and as such the producers within the industry are entitled to come under the Act if they desire.

The proposed tentative dairy adjustment program is as follows:

The goal will be a 15 to 20 percent reduction in sales of butter-fat in all milk sold in the year April, 1934, to April, 1935, below the sales in the period April, 1933, to April, 1934.

Allotments by state quotas will be based on sales in 1931, 1932, and 1933, with adjustments for such unusual regional conditions as drought. To producers a base will be allotted on their records of 1932 and 1933. The annual allotment will be divided into seasonal periods of unequal volume, suitable to each producer.

Reduction is to be secured through benefit payments or premiums on reductions of 15 to 20 percent below basic sales. The quantities are to apply to individual dairymen under a voluntary contract arrangement.

Each producer will be allowed to determine his own method of reduction according to his best judgment. Any producer who can establish a base quantity is eligible for benefits regardless of the quantity of his sales.

Substantial benefit payments will be made in advance upon signing of contracts properly certified, and additional partial payments will be made thereafter perhaps semi-annually. Definite amounts or rates of benefits cannot be named until the rate of tax is determined, and information available as to supplementary funds which may be appropriated.

In the beginning of the marketing year the processing tax would be levied at a rate of at least 5 cents per pound of fat in all milk and products, and a compensating tax on oleomargarine at a pound-for-pound rate equivalent to the tax on butter. Advance payments to contract signers from a special emergency fund would be advisable to tide over the interval when the first effect of the tax is felt. It is assumed that such a tax would be collected on 90 to 95 percent of the sales of milk and cream by producers at time of processing or bottling.

Contracts are to be offered to producers and allotments are to be made through county associations, as in other programs. Where there are already county associations existing for other commodities it might be possible to use the same organization for dairy control.

A maximum of \$250,000 would be allocated from the funds for assisting cooperating producers in determining the most economical and most efficient methods to be used by them in complying with the reduction specified in their contracts.

A maximum of \$5,000,000 would be allocated to the Bureau of Animal Industry to be used in tuberculosis eradication work, such sum to be used on the same basis as at present in joint Federal-State campaigns.

Funds would also be allocated with which to experiment with the proposal to move normal cows of good condition from intensive dairy regions to deficit areas in the South where families do not get milk and dairy products in sufficient amounts to maintain health, growth and development. Care would be exercised to see that no cows under this plan are taken into commercial herds to produce milk in competition with other areas.

For speedier emergency action by Congress to distribute cash benefits, a combination of the allotment, cow removal and surplus commodity buying for relief is possible. Much would depend in this case on whether the emergency fund would come from the Treasury completely or be repayable out of processing taxes.

Suggestions Received From the Industry

Suggested programs and general proposals for increasing the prices of milk and dairy products through reducing production and other means of adjustment open to consideration under the Agricultural Adjustment Act have been under review for several weeks by a special Committee. These proposals made in outline without administrative details have come to the Administrator voluntarily through letters, official organization statements, resolutions, and published recommendations.

They have been largely in response to the opinions expressed by prominent dairymen and endorsed by Secretary Wallace that some form of production control would seem to be a necessary part of any permanent plan to boost the prices of dairy products, except in so far as dairymen may be helped by improving the agricultural situation as a whole or the individual groups of producers, manufacturers and distributors could be encouraged to pull together under trade agreements that would eliminate cut throat competition and unfair practices.

Most of the proposed programs for improving the dairy situation which have been submitted to the Agricultural Adjustment Administration include plans for reducing dairy production, removing surplus production, restricting the sale of competing commodities, stimulating the consumption of dairy products, or securing for milk producers a larger share of the consumer's dollar.

At least eight classes of reduction programs have been listed by the committee in their general consideration of the plans submitted. As most of the plans have been submitted independently, full consideration of many complex and conflicting factors are involved. The eight types of reduction plans suggested are as follows: (1) Decreasing cow numbers through benefit payments; (2) feed reduction program through benefit payments; (3) forcing a high fat content in standard dairy products sold; (4) restrictions of the sales of milk and manufactured dairy products; (5) increasing the age at which calves may be marketed to utilize more whole milk on farms; (6) facilitating the farm manufacture of butter through separator attachments giving very high fat cream; (7) decreasing milk production through a change in established feeding practices, using less concentrates and more roughage; and (8) general removal of marginal lands from any and all crop production uses.

Necessary Cow Reduction to Get Production Cut

Any plan for accomplishing reduction of output through the decreasing of cow numbers, the committee states, must consider the removal necessary to get a given effect on volume of milk produced commercially. In any event, such reduction of production through hard culling practices would be done under the assumption that prices would not advance enough to encourage more intensive feeding, earlier weaning of calves or reducing the milk fed to calves after weaning, shifts from farm butter to sale of butterfat, and a reduced home consumption of dairy products. In other words, the above practical results of a firmer price for milk and butter would affect the anticipated results from cutting cow populations. The 1932 commercial production is used as a base for estimates in this regard it being 77 percent of 101,860,000,000 pounds, or the total milk produced on farms.

Allowing for the normal annual rate of culling of 4,500,000 head, possible shifts from beef to dairy purposes, and including the assumed additional culling to offset smaller death loss, the committee estimates that a decrease of 3 percent in commercial milk output would require elimination of 5,466,000 cows, 5 percent cut would require 6,054,000 less cows, 10 percent production cut would require removal of 7,315,000 head of cows, and a 15 percent cut in delivery would mean a cut of 8,456,000 head in cow numbers.

To meet the problem by elimination of cows, various proposals have been received. The elimination of diseased cows is most favored, but there are also plans submitted in outline for slaughter or part of the herds and the general elimination of the so called "boarder cows" which yield milk for surplus production at no profit or a loss to owners.

Complete destruction of at least 15 or more percent of the dairy cows financed by a tax on dairy products, indemnities to owners for cow slaughter with the beef used for relief purposes, financial aid by the Government to cow testing associations to get rid of old, unprofitable cows, accompanied by curtailment of calf raising, and joint State and Federal programs for outright numerical reduction in many ways are among the schemes suggested.

The elimination of tubercular milk cows is a popular proposal. This program has been proceeding for many years under joint work by the federal and State agencies, and it is now proposed to clean up the remaining reacting cattle in one year, with a two-fold objective: Promoting cleaner herds and insuring a better milk supply, and cutting down somewhat on the apparent surplus of production above current demand. The proponents argue that the meat will not be used for consumption and therefore would not depress beef prices.

Tubercular Cow Removal Problems

Estimates supplied to the committee by the Bureau of Animal Industry in charge of the historic campaigns for bovine t. b. eradication, indicate that there are about five million dairy cattle (including calves, heifers and bulls) which have not been tuberculin tested. Experience indicates that 608,000 of them might be expected to react positively and be subject to removal at a testing cost of about \$5,500,000. Eleven States contain the

bulk of the untested cows, and the heaviest removals of reactors would no doubt come from herds in New York, California, Pennsylvania and Vermont, with such midwestern States as Minnesota, Iowa and South Dakota yielding around 20,000 reactors each.

As now handled the tubercular cow elimination program is a cooperative arrangement between the States and the Federal government, both in operating and indemnity expenses. The present indemnity is based upon the difference between the appraised value and the net salvage value.

Two proposals are made for removing all of the reactors in one year. In the first scheme the proportion of the total expense would be borne as at present on a joint State-Federal arrangement, but any deficiency in the funds supplied by the Bureau of Animal Industry for the program would be met by benefit payments from processing taxes. The advantage in the joint plan is that its customary procedure would not be changed and State and sectional objections might be reduced. The edible parts of the reactors would be salvaged.

In the second plan for complete eradication during 1934, it is proposed that nearly all the funds be derived from processing taxes and that the edible parts of the carcasses of reactors be not salvaged. The total cost of indemnity, testing and salvage costs under this plan would amount to about \$41,000,000, it is estimated. Only a limited amount would be contributed by State legislatures under this plan, and if the Agricultural Adjustment Administration has to bear the major part of the cost beyond available tuberculin test appropriations by Congress, it would require all of the proceeds from a processing tax of about one and one-half cents per pound of butterfat collected during 1934.

A two-year campaign is also suggested, with State, county and Federal funds the same as in 1932 and 1933. This plan might be finished in two years with benefit payments of from two to two and one-half million dollars from the Agricultural Adjustment Administration over and above the usual funds supplied by the Bureau of Animal Industry at present.

Still further light is shed on the tuberculin test campaign as a practical means to secure reduction in production by authorities as follows:

"Slaughtering 600,000 dairy cattle in a tuberculosis eradication campaign in 1934 would mean about 520,000 milk cows eliminated. Exclusive of death loss, farmers are now culling herds at the rate of about four million cows per year. If the tuberculosis campaign would advance the price of milk cows it is likely that the culling would be reduced for awhile from 16 percent to 14 percent or to less. If culling were cut 2 percent per year it would make a difference of 500,000 fewer cows removed, nearly offsetting the slaughter proposed in the eradication plan. Furthermore, the slaughter of 520,000 diseased cows in a year would probably mean the killing of only about 400,000 cows which would not otherwise be killed without testing, as usually one-fourth of the diseased cows are culled out regardless of any testing."

An analysis still further shows that in all probability an intensive campaign of tuberculosis eradication would during the period of most extensive slaughter bring about a slight temporary decrease in production of one to two percent, followed by a gradual readjustment to normal conditions. In the long run, evidence indicates to the committee that elimination of tubercular cows from herds would actually increase production, but the plan has many points to commend it.

It is probable that the dairy industry would not sanction a test campaign with benefit payments that would require a heavy processing tax levy, except possibly by groups in areas where the largest number of reacting cattle are located. Without coming to any decision as yet, the committee is of the opinion that public welfare dictates that some tuberculosis eradication work should be included in a general adjustment program for the dairy industry. Anticipated results from it, are, however, not such as to indicate that it would be good policy to centralize entirely upon tuberculin testing and benefit payments as a means to secure the desired balance between domestic production and the probable domestic demand.

Removing Positive Abortion Cows

The second method suggested for reducing production through elimination of diseased cows is the application of the agglutination blood test for contagious abortion or Bang's disease under joint State and Federal supervision. The disease is probably more injurious to herd welfare than any other now prevalent. The extent of Bang's disease is uncertain, estimates running from 15 to 30 percent of the entire producing cow population. Infected cows produce little milk the year they abort, and conception is usually delayed. Likewise infected herds often develop mastitis, which is a bacterial udder disease of great virulence and damage. In fact, Bang's disease and mastitis are both considered together in proposals for reduction measures through sanitary clean-up campaigns.

The authorities look with some favor on the program for reducing production by eliminating positive abortion cows through the blood test. They say, however, that the first test will not eliminate the disease but it must be closely followed by retests to prevent reinfection. Conferences have been held recently relative to the recommendations for such a movement. Owing to different regulations now in effect in the various States, some degree of standardization of blood tests and sanitary control would be necessary under federal supervision in case the work is undertaken. Several States have made progress with accredited abortion-free herds, and many breed organizations lend support to the idea.

Specialists declare that the immediate effect of undertaking a universal abortion testing campaign will be to remove many cows at the height of their production years. These cows may also have acquired immunity but they are constant sources of infection. The removal of positive cows would be followed by retests at least every 90 days until the herds test negative. Care would also be used to guard against reinfection through introducing new stock.

Proponents of the plan ask that the testing be free to herd owners and that cash indemnities per head be paid for positive cows, with disposal

of the carcasses not yet fully outlined. Indemnity would not be paid unless positive animals were removed and no clean additional cows added to herds for at least 60 days after the removal of the last positive animal.

Removal of Normal Cows

Outright purchase by the government of healthy cows and heifers for the purpose of reduction control is regarded with extreme doubt by the committee. Purchase of cows of low fat production could not be done without the expenditure of several hundred million dollars and the levy of a large processing tax. Plans to buy cows at a given price per head would tend to result in the slaughter of inferior cattle and offset the desired result, it is believed. A fixed price per pound, they feel, might be preferable. In any case it is estimated that much waste of funds would follow because payments would go to owners for doing their ordinary normal culling, rather than to stimulate extraordinary herd reduction. One way to avoid this difficulty, it has been suggested, would be to spend one-half the available funds for buying bred heifers under two years old and the balance for buying pregnant cows four years old and over. Accompanying a program of this kind which might throw extra supplies of low grade beef on the market, it is suggested that some funds should be allocated for buying low grade beef or canned stock to be distributed to the unemployed. This is under investigation at present.

Another plan advocated to reduce overhead expenses of operation would be to pay a bonus of one cent per pound on dairy or dual-purpose cows sold for slaughter provided they are pregnant and of advanced age. Eartags would be used as certificates under this proposal.

If the money required to buy cows is secured from a processing tax that temporarily reduces the prices farmers get for dairy products, the lower net price on the farm would tend to stimulate culling under the bonus plan. Any sharp advance in prices of milk would tend to raise the value of dairy cows. This would make the bonus less attractive. The presence of nine million mature beef cows and three million yearling beef heifers, the committee feels is also worth serious consideration in any dairy cow bonus payment program. In fact, the effect of transitions from beef to dairy production has already been felt.

Reduction in Important Grain Crops

Considerable arbitrary estimating was necessary when the committee started to find an answer to the proposals advanced that a twenty percent reduction in grain acreages would help to create a considerable reduction in the production of milk and dairy products. The theory was advanced by proponents of the idea that a cut in home-grown grain acreage would be hitting at the source of dairy production and that some scheme of benefit payments for such contracted withdrawal of land from cultivation might be successfully worked out.

Skipping the details by which the committee finally arrived at their conclusion, it may be pointed out that estimates were drawn from normal feed unit requirements of farm animals, the land required for grain production, and the distribution of the net grain supply among the various classes of livestock.

Their findings indicate that a reduction of 20 percent in feed grains available would give a 25 percent cut in dairy cattle grain rations, which would probably be accompanied by an increase in hay land and pasture, so that an increase of 32 percent in their roughage might occur. According to their report the largest effect on a general cut in grain acreages available for livestock feeding would be felt with hogs and next with poultry. The inter-relation on some stock farms is too complex to sustain a belief that such a plan would work to the best advantage.

Drying Off Cows and Feeding on Roughage Basis

A program designed to aid in an immediate and a long-time program for curtailment of production has been submitted. The objective is to dry off enough cows each month to cut herd production 10 percent until the following pasture season, whereupon the manager converts his grain crop to roughage crops and puts the cows on a strict roughage ration except in market milk zones where a limited grain ration would be fed.

The complete summary of the local organizations, many already functioning, with which the immediate phase of the plan might be handled, are outlined. Compensation would be paid to producers by means of funds secured through processing taxes, in return for "drying off" their cows under definite rules. The basis of benefit payments to farmers would be upon the estimated amounts of fat a cow would have yielded had she continued milking. This plan requires definite weights of the milk taken for each cow in a 24-hour period and the calving dates, to be secured by local committees. No compensation would be allowed for cows within 60 days of freshening, and the fat reckoning would be made on the average fat yield for the breed. It is argued for the plan that it is the quickest and easiest way for most farmers to reduce production without jeopardizing other phases of agriculture, as in the case of killing large numbers of cows or adopting a roughage program before a crop readjustment system is completed. The proponents estimate that a cut of 10 percent in milk yield for 120 days would mean 115,200,000 pounds reduction in butterfat with 20 million cows average 12 pounds of 4 percent milk daily. On this basis for that period the estimated benefit cost would be about 36 million dollars, the proponents believe. The administrative details would be difficult.

Using roughage rations and encouraging herd improvement practices are favored as sensible steps to take, but they are not to be depended upon as a method of securing reduction in production speedily.

Forcing High Fat Content in Products Sold

It has been suggested to the committee that raising the butterfat content of butter from 80 to 82.5 percent by official Department regulation of interstate standards would bring 51 million pounds reduction in creamery butter produced in one year, based on 1932 figures. The plan does not call for a diminished supply of raw material delivered, but a decrease in the finished article of commerce. In other words, it means putting more fat in a given "package."

In commenting on this proposal, the committee states that it is highly improbable that a higher return to producers per pound of butterfat

sold would result from it. The effect of raising the butterfat standard of butter and a consequent reduction in its supply would, of course, give a higher unit price for butter, but the committee feels that the return to producers per pound of fat would not be increased in case the total consumer expenditures for butter remain about the same. There might be some savings on the production through lower transportation expenses and a reduction in manufacturing and packaging costs. Similar recommendations have been made relative to proposed increases in the fat standard for ice cream, the design being to use up more butterfat in a given quantity of finished article.

Proponents point out that no injustice to creameries would result if the standard were increased because all butter intended for interstate shipment would have to conform to the federal order, so the natural tendency would be for most factories to manufacture a product suitable for interstate commerce.

Similar in objective is the proposal offered to encourage the use of special separator attachments on the farm whereby a thick, high fat cream might be manufactured, testing as high as 80 percent butterfat. No serious consideration has as yet been given to this idea.

Longer Calf Feeding and Using More Roughage

Other suggestions of a purely animal husbandry character made to the committee as possible aids to the educational side of the problem of adjusting production are relative to longer periods of calf feeding before marketing as veal, and the general proposal to use more roughage in order to make less milk at greater profit.

It is argued that a general movement, either voluntary or by compulsion, to increase the age at which calves might be marketed would utilize more milk and also make better quality veal. This and the studies made in support of the roughage feeding idea are primarily educational in character, subject to individual adoption through local effort. The Bureau of Dairying Industry has found that cows fed a ration containing roughage entirely will produce on the average 70 percent as much as they will on a full-grain ration, and that on a limited grain ration the production will be a trifle over 90 percent of production on a full grain ration. It is presumed that in such a plan a farmer would keep only enough cows for which he could grow feed. A complete analysis of the problems raised under this exclusive roughage ration idea has been prepared in support of it by the Bureau of Dairy Industry who recognize that its suggestion runs contrary to the usual ration recommendations of the present, but that emergencies often require the temporary abandonment of older theories. The evidence offered is based on extensive experiments conducted by the Bureau of Dairy Industry on government farms and elsewhere.

Removal of Marginal Lands

Leading farm organizations and others have insisted that a broad land utilization program must be worked out. Land of a marginal character, they contend, should be entirely eliminated from production so that dairy farming, as well as other lines of agriculture, would not be constantly

threatened with the opening of additional acres to hay and grain crops. This is regarded as another long-time program rather than something which may be settled at once. The wisdom of the policy is conceded by the committee. It is part of the Government's avowed program.

Control by Allotment

Many varied ideas have been contributed regarding allotments and market quotas. One method is compulsory allotments for all producers of dairy products, with absolute prohibition of sales beyond an established base level for individuals. The second method involves voluntary control to provide benefit payments to dairymen who voluntarily cooperate with the Government in regulating their production in any way they see fit.

Under the first compulsory idea, licenses might be placed on producers, (which requires amendments to the Act) or upon processors and distributors who would be obliged to buy only from farmers with fixed allotments. The administrative features of compulsory allotment plans are difficult.

Under the voluntary plan in its modified forms there is more flexibility and farmers could judge what methods of production adjustment they wanted to adopt. Administrative details would be simplified and effective control would follow if a sizeable processing tax were levied under the second method.

In all of these allotment plans consideration has been given to such necessary details as; 1. Formation of production control associations and 2. Allotment to each county and thence to each producer of given quotas of butterfat with benefit payments from processing taxes.

The committee notes that the higher the proposed processing tax levy the less difference there might be between the two methods. This is because a high tax tends toward setting a fixed sale allotment. Where there is a fixed sale limit the allotment itself becomes of more significance because amounts above the allotment cannot be disposed of on the market.

The absence of a sales outlet at any price is questionable policy in view of the chance for bootlegging and evasion. Definite quantities of milk production are obviously hard to regulate, even by those who honestly wish to restrict their output. The committee feels that production might be more definitely restricted in a sales limitation program, although in that case or with allotments on an open market only a heavy processing tax can possibly be expected to bring large results.

Setting Bases for Control Plan

It is recognized that a reduction in the amount of milk and dairy products necessary to secure prices at prewar parity would require such reduction in commercial production as to be undesirable from a nutritional standpoint. A balancing of the opposing objectives will be considered a foundation on which the proposed quotas for the country will be allotted.

This procedure means consideration of (1) market area allotments; (2) allocation of the market among producers in the area; (3) seasonal adjustment in the basic quantity allotted to each producer. Uniform base each month would be more desirable for market milk zones and less desirable in manufactured milk regions.

In the allotting by areas reliable data are hard to obtain, except perhaps for State quotas. The only real county quotas available are in portions of the North Atlantic States. State allotments could be made, the committee says, and leave the internal allotments to the State groups. A checkup would eventually be necessary by the Agricultural Adjustment officials concerning border line allotments, and allowance for unusual temporary situations.

In allotment for individual producers the total farms with cows - about four and a half million - need not necessarily be included, because many do not sell commercial milk. A majority of the herds with three cows or less could be omitted from the allotment base it is believed. These are largely in the South. After completing the preliminary survey the committee estimates that not more than 2,190,000 dairy farmers would be involved in any general market allotment plan. It is contended that the share of each producer within a particular milk area can be allocated equitably as against his neighbor on the basis of past production usually determined by local committees.

Seasonal adjustment of base must be recognized, it is believed. It is probably not desirable to grant equal monthly allotments of one-twelfth of a year's base under normal dairy conditions. Seasonal shifts in base equal to the average variation in each territory could be easily arranged as percentages of the whole, worked on a curve of high and low milk flow.

In considering both processing tax collections and benefit payments a total of more than 708,000 plants and individual operators would be included. These are listed as 4,424 creameries, 3,339 cheese factories, 250 condenseries, 449 evaporating plants, 3,619 ice cream plants, 1,026 dried milk plants, 32,000 milk distributors in cities and towns, and the plants of 668,000 producers who distribute their own milk at retail.

Restriction of Competing Products

If oleomargarine were eliminated from the domestic fat market it might be assumed, the committee states, that present consumer expenditures for that article would be diverted to the buying of butter. If this were the case, the demand for butter would be some 6 or 7 percent greater at the present time. The committee is not certain, however, that this could be definitely assured since consumers might be forced to maintain more nearly their fat purchases in pounds by selection of cheaper sources. It also appears clear that there exists ample supplies of domestic animal oils to make nearly the customary quantity of oleomargarine even though the importation of foreign fats were prohibited. If domestic oils only were used it is assumed the price for oleomargarine would tend to increase and thereby restrict consumption somewhat unless butter price advances kept pace with it.

Compensating taxes may be placed on oleomargarine at the time a processing tax on butterfat is imposed. The higher the compensating tax the greater would be the immediate disadvantage of oleomargarine and the smaller the sales resulting. Revenue would not rise directly in proportion to the compensating tax rate it is declared. Licensing oleomargarine

as a competing product under a marketing agreement for butter has been proposed. It is not clear, however, whether all terms of the agreement may be included to licensees who are not parties to it. Hence it is not certain whether anything can be put in the pending oleomargarine license which is not found in the butter marketing agreement or license. Compensating taxes under the Agricultural Adjustment Act may be extended to imports from the Philippine Islands. The Philippine independence bill would need to be changed by Congress before any new and drastic restrictions on imports of cocoa-nut oil and copra from that source could be put into effect.

Campaigns to Increase Consumption.

As it has been definitely determined that the per capita consumption of milk and dairy products has declined somewhat, there is a growing sentiment for campaigns to stimulate consumer demand. While it has been clearly declared by the Administration that the government cannot enter directly into any special products campaign, many of the dairy leaders think that if the funds from a processing tax on milk and its products are eventually paid by producers in whole or in part, part of the money might well be used for educational and advertising benefits.

Some leaders insist that such funds would do more good than individual benefit payments in small amounts, such as it would be possible to make under only a small processing tax. The committee is sympathetic to the idea of doing something to increase consumption, but they are not sure whether the reaction on consumers would be good if it were made to appear that they were paying for the advertising.

Hitherto the campaigns for greater use of dairy products have been supported somewhat indifferently by dairy farmers themselves, the major part of the support coming from processors and distributors. A movement to get diarmen uniformly and equitably supporting a general movement to increase consumption of their products has distinct advantages, but they are deemed to be of a nature not subject to federal administration.

Results If Nothing Were Attempted.

In considering the probable results to the dairyman if no production restriction program were introduced, the committee uses the available statistics of the Bureau of Agricultural Economics supplemented by reports from other sources.

Concerning production probabilities, the committee states that production per cow probably reached its peak in 1929 with 4,582 pounds as the estimated annual per cow production. In 1932 the estimated per cow production was 4,309 pounds per year, or 6 percent less than in 1929. They believe that statistics warrant the assumption that because of the still further decline in the per cow production through 1933, the total yield for this year will be about the same as in 1932. Although there was an increase in total dairy cow population it is thought that the decreased production per unit will offset the increase in numbers. High feed prices and drought conditions have reduced production per cow.

They state that present prices of dairy cows are probably low

enough to check the increase in cow population, and that the natural increase in the number of heifers has already been checked. Figures indicate that the rate of culling reached a low level last year, but that cattle slaughtered under federal inspection increased 15 percent in 1933 over the same period in 1932. An increase in the rate of herd culling would tend to offset the increase in cow numbers. The decline in the purchasing power of the price of dairy cattle declined 52 percent, it is stated, between January 1, 1930, and the same date in 1933.

In their study of feed costs, the committee states that during the decline in prices from 1929 to 1932 the prices of grains and many other farm products declined further than dairy products. But in the rise since March 1933, dairy products prices have risen less than prices of grains and other products. On August 15, 1933, one pound of butterfat was equal to the price of 20.2 pounds of grain, compared to about 30 pounds from 1920 to 1929, and a prewar average of 22 pounds.

It is, therefore, pointed out that during the first depression years the effect of the grain and butterfat ratio was such as to stimulate production, but that the subsequent price relationships of this year, if continued would no doubt tend to curtail production. The committee declares that this condition would be especially true in sections where shifts from selling grain are most easily made. If no control program were undertaken and other things remained equal, high grain prices in relation to butterfat prices would tend to cut the cow population's rate of increase, or might even actually cause a general decline in total number of milk cows if this condition persisted over several years.

Many general recovery period experience shows that dairy prices tend to lag somewhat behind other prices. It is therefore with the idea of taking off some of the bad effects of the lag in dairy incomes that an adjustment program is offered. In view of the low state of finances in many dairy communities there has been considerable sentiment for such a program.

1. The first part of the report
describes the general situation
of the country and the
state of the economy.
It also mentions the
main problems which
the government is facing.
The second part of the report
deals with the results of the
survey conducted in the
different regions of the country.
It shows that there are
significant differences
between the various regions.
The third part of the report
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It states that the
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